

# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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## MEMORANDUM

TO: Quincy Retirement Board

FROM: John W. Parsons, Esq., Executive Director

RE: Approval of Funding Schedule to FY21

DATE: March 6, 2019

This Commission is hereby furnishing you with approval of the revised funding schedule you recently adopted (copy enclosed). However, note that our approval is only through FY21. The schedule assumes payments are made on July 1 each fiscal year. The schedule is effective in FY19 (since the amount under the prior schedule was maintained in FY19).

There are two reasons our approval is only through FY21. The first reason reflects the amortization basis of the unfunded actuarial liability. The second reason reflects the plan's assets and the longstanding issue regarding the hospital privatization and amounts receivable.

The schedule increases the annual appropriation by 7.5% in FY20 and FY21, then by 5.4% per year to FY36 with a final amortization payment in FY37. We would have preferred a schedule be adopted that more aggressively amortizes the unfunded actuarial liability (UAL). For the past five years, we have recommended that systems determine schedules to be fully funded by FY35. This provides more flexibility in the event of a market downturn. The prior schedule completed the amortization of the UAL in FY36. This schedule extends that period for one year and completes the amortization of the unfunded liability in FY37. We believe a schedule could be determined that completes the amortization of the UAL by FY35 by maintaining the 7.5% increases for a few years longer and/or with relatively small annual increases to the amounts shown in the schedule.

Chapter 32 allows that if the initial appropriation determined in a funding schedule using traditional amortization methodology would increase by more than 8.0%, a system may adopt a schedule in which the payments increase by no more than 8.0% per year with PERAC's approval. We note that the FY20 appropriation using the minimum allowable schedule (4.0% increasing annual amortization to FY40 and determined excluding the account receivable) produces an appropriation that is more than \$2.2 million greater than the appropriation shown in the schedule the Board adopted. In such cases, we generally require that the appropriation increase by 8.0% per year and/or the amortization of the UAL be completed by FY35. Since neither of these conditions are met in the schedule, we will only approve this schedule through FY21.



The second reason for approving the schedule only to FY21 is related to plan assets. The assets used in the valuation include an account receivable of approximately \$7.7 million.

Approximately \$6.0 million of this amount is for appropriations not made since the privatization of the Hospital and the ensuing court decisions. Our understanding is that a significant portion of this amount is for shortfalls in past Housing Authority appropriations but some may be attributable to the City. You indicated the Board would be working to resolve this longstanding issue. If this receivable were excluded from the valuation assets and amortized on level dollar basis to FY36, the annual payment would be approximately \$600,000. As part of this process, we will begin recognizing this shortfall in the FY20 appropriation by adjusting the allocation for the City and Housing Authority to reflect past receivable amounts.

The Board recently provided us a detailed accounting of the amount receivable as of December 31, 2017. We have performed a preliminary comparison and relayed to you several questions we have with respect to discrepancies in the figures for certain years in your spreadsheet compared to memos, notes, and e-mails in our files. More significantly, we have questions about the methodology that should be employed in determining the allocation to the City and Housing Authority from FY04 to FY11 based on the four separate court decisions between 2004 and 2010. Our allocation since FY12 is based on the final court decision and we agree with your figures for these years. We will further discuss this issue with you after a review by PERAC's Legal department.

The results of the January 1, 2020 actuarial valuation will determine the FY22 appropriation. We believe it is likely that the FY22 appropriation (and probably several additional years) will need to maintain the annual 7.5% increases shown for FY20 and FY21 of the current schedule to reflect the fact that the accumulated account receivable will no longer be included in plan assets. The Board should assume that the next schedule maintains increases of at least 7.5% through at least FY23.

We note that the schedule reflects a decrease in the investment return assumption from 7.75% to 7.50% and a change in the generational mortality assumption.

If you have any questions, please contact PERAC's Actuary, Jim Lamenzo, at (617) 666-4446, extension 921.

JEC/jrl

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# QUINCY CONTRIBUTORY RETIREMENT SYSTEM

## FUNDING SCHEDULE

Fiscal Year	Normal Cost	Unfunded Liability*	Funding Amortization of UAAL	Net 3(8)(c) Payments	Schedule Contribution**	% Change
2020	5,667,077	425,111,667	26,870,603	617,874	33,155,554	7.50%
2021	5,893,760	428,109,144	29,130,586	617,874	35,642,220	7.50%
2022	6,129,510	423,630,324	30,819,516	617,874	37,566,900	5.40%
2023	6,374,691	422,271,619	32,602,948	617,874	39,595,513	5.40%
2024	6,629,679	409,998,656	34,486,118	617,874	41,733,670	5.40%
2025	6,894,866	403,675,978	36,474,549	617,874	43,987,289	5.40%
2026	7,170,660	394,741,536	38,574,068	617,874	46,362,602	5.40%
2027	7,457,487	382,880,028	40,790,822	617,874	48,866,183	5.40%
2028	7,755,786	367,745,896	43,131,297	617,874	51,504,956	5.40%
2029	8,066,018	348,960,695	45,602,333	617,874	54,286,224	5.40%
2030	8,388,658	326,110,239	48,211,148	617,874	57,217,680	5.40%
2031	8,724,205	298,741,523	50,965,357	617,874	60,307,435	5.40%
2032	9,073,173	266,359,379	53,872,990	617,874	63,564,036	5.40%
2033	9,436,100	228,422,868	56,942,521	617,874	66,996,494	5.40%
2034	9,813,544	184,341,374	60,182,888	617,874	70,614,305	5.40%
2035	10,206,086	133,470,372	63,603,518	617,874	74,427,478	5.40%
2036	10,614,329	75,106,868	67,214,359	617,874	78,446,561	5.40%
2037	11,038,902	8,484,448	8,484,448	617,874	20,141,224	-74.32%
2038	11,480,458	-	-	617,874	12,098,332	-39.93%

### Amortization of Unfunded Liability as of July 1, 2019

Year	Type	Original Amort. Amount	Percentage Increasing	Original # of Years	Current Amort. Amount	Years Remaining
2005	ERI - HA(2002)	27,716	4.50%	24	52,591	9
2005	ERI - City(2002)	317,193	4.50%	24	601,890	9
2006	ERI - City(2003)	404,362	4.50%	23	734,258	9
2006	ERI - HA(2003)	24,895	4.50%	23	45,205	9
2020	Fresh Start	N/A	N/A	18	N/A	18

#### Notes on Amortization of Unfunded Liability

**Year** is the year the amortization base was established. **Type** is the reason for the creation of the base. **Original Amortization Amount** is the annual amortization amount when the base was established. **Percentage Increasing** is the percentage that the Original Amortization Amount increases per year. **Original # of Years** is the number of years over which the base is being amortized. **Current Amortization Amount** is the amortization payment amount for this year. **Years Remaining** is the number of years left to amortize the base.

\* Includes recognition of the following asset gains/(losses) in Fiscal 2022 and 2024:

2022	\$	5,271,626
2024	\$	8,895,165

\*\* Contribution is set to be the amount resulting from a 7.5% increase on the Fiscal 2019 contribution, followed by a 7.5% increase, and then 5.4% increases thereafter. The contribution in FY2037 decreases by -74.32%.